

STATE CONTROLLER'S OFFICE
PERSONNEL/PAYROLL SERVICES DIVISION
P. O. BOX 942850
Sacramento, CA 94250-5878

DATE: November 2, 2004

PAYROLL LETTER # 04-016

TO: All Agencies/Campuses in the Uniform State Payroll System

FROM: JOHN R. HARRIGAN, Chief
Personnel/Payroll Services DivisionRE: **SPECIAL ACCOUNTING PERIOD FOR NON-CASH FRINGE BENEFITS**

This letter provides reporting instructions for **NON-CASH**, taxable fringe benefits values received in December 2004 and a sample employee notification letter regarding Special Accounting Period (SAP) provisions.

GENERAL INFORMATION

Per Payroll Procedures Manual (PPM), Section N-175, the SAP for non-cash taxable fringe benefit values is December through November. Non-cash values received and reported to this office from December 2003 through November 2004 will be reflected on the 2004 Form W-2. Please refer to Payroll Letter # 04-014 for 2004 reporting cutoff dates.

The SAP requires special reporting for non-cash values received in December and mandatory notification to affected employees. The following provides reporting instructions for values received in December 2004 and a sample employee notification letter.

BENEFITS IMPACTED BY SAP

The values of **ALL NON-CASH** taxable benefits received by employees in December 2004 and reported to the State Controller's Office are reported under the SAP. Refer to PPM Section N-175.1 for a complete benefit listing.

SPECIAL REPORTING INSTRUCTIONS—DECEMBER ONLY

Complete the **Form STD. 676V NON-USPS ADJUSTMENT REQUEST--VALUES (FRINGE BENEFITS/EMPLOYEE BUSINESS EXPENSE)** using PPM Section N-172.2 procedures. When completing column 9 (issue date), **ENTER 01/01/05 FOR ALL NON-CASH VALUES RECEIVED DURING DECEMBER 2004**. Non-cash fringe benefits **MUST** be reported in the month following receipt of the benefit.

If the Form 676V is received by the 10th of the month, taxes will be withheld from that month's Master payroll warrant. **NOTE:** Federal and State Income Taxes are not withheld from the December Warrant for fringe benefit amounts reported for November. See PPM Section Z Attachment N-2 for the Form STD. 676V submission schedule.

MANDATORY EMPLOYEE NOTIFICATION

The Internal Revenue Service **REQUIRES** employers (agencies/campuses) to:

- 1) notify affected employees of SAP reporting provisions;
- 2) instruct employees to use the same SAP (for value based benefits received in December) as the employer when filing personal income tax returns; and
- 3) notify employees of the **SAP NO SOONER THAN THE RECEIPT OF THE LAST PAYCHECK OF THE CALENDAR YEAR AND NO LATER THAN RELEASE OF THE EMPLOYEE'S FORM W-2.**

NOTE: Agencies/Campuses are encouraged to use the attached sample notification letter to fulfill the mandated reporting requirements.

CONTACTS

If you require additional information, use the following contacts for assistance:

SAP Questions
Chris Knutson (cknutson@sco.ca.gov) (916) 322-8112
Tax Support Section

FORM STD. 676V
Payroll Operations (916) 322-8100
W-2 Unit

JRH:CK:TSS

ATTACHMENT

ATTACHMENT—SAMPLE LETTER TO EMPLOYEES IMPACTED BY SAP

January 7, 2005

Dear State Employee

The Internal Revenue Service (IRS) permits employers to adopt a Special Accounting Period (SAP) for reporting **non-cash**, taxable fringe benefit values. The SAP allows employers to report values received late in one calendar year as income in the subsequent tax year. The SAP minimizes late reporting, issuing corrected Forms W-2 and employees filing amended income tax returns.

In January 1996, the State Controller's Office adopted a December through November SAP calendar. For Tax Year 2004, your Form W-2 will show non-cash values reported for December 2003-November 2004.

NON-CASH, TAXABLE FRINGE BENEFITS

Under the SAP Program, the following non-cash taxable values are affected:

- | | |
|------------------------------------------|------------------------------------------------|
| -Value of State Housing | -Lottery Sales Recognition |
| -Educational Assistance Program | -Rideshare Incentive Award Program |
| -Dues and Memberships | -Personal Use of State Vehicle |
| -Loan Assumption Program | -Car/Vanpool |
| -Group-Term Life Insurance (Legislators) | -Forgivable Loan/Doctoral Incentive Program |
| -Loan Forgiveness Program | -Tickets |
| -Out-Placement | -Merit Award Program (non-cash) |
| -Scholarships (Fee Waiver Program) | -Commuter Highway Vehicle |
| -Vehicle Provided by Third Parties | -Uniform Allowance |
| -Miscellaneous Incentive Program | -Discount Travel/Transit Pass (non-cash) |
| -Overtime Meal Compensation | -Electronic Devices |
| (i.e., Meal Tickets) | -Incentive Provided by Third Parties(non-cash) |

IRS REQUIREMENTS

IRS **requires** that employees use the same accounting period (December through November) when filling tax returns. Itemized deductions related to non-cash, taxable values received in December 2004 must be claimed in the following tax year (2005).

QUESTIONS

If you have any questions regarding the SAP program, please contact your Personnel/Accounting Office. **Contact your tax advisor or the IRS regarding tax filing questions.**